

# Valance Company, Inc.



Weekly

August 24, 2005

III

## Highlights

**US** – Housing weaker than headline data suggests (page 2)

**Euroland** – Private Consumption continued to contract in France and Germany (page 7)

**Japan** – Industry Activity accelerates (page 13)

**UK** – Gordon Brown needs corporate taxes to jump 37% to meet his budget (page 18)

**Canada** – Strong Retail Sales growth (page 22)

## August 18 - August 24 Short Term Interest Rates

Country	Change in BPs		(3Mth. Futures Contracts Yields)			
	Official Rate	3 Mth. LIBOR	Sep-05	Dec-05	Mar-06	Jun-06
<b>US</b>	0.00	0.03	-1.00	-3.00	-6.50	-8.00
	3.50	3.84	3.98	4.27	4.35	4.37
<b>EU</b>	0.00	0.00	-0.50	0.50	1.50	2.00
	2.00	2.13	2.13	2.17	2.20	2.27
<b>JN</b>	0.00	0.00	-0.50	0.00	-0.50	-0.50
	0.00	0.06	0.09	0.11	0.16	0.22
<b>UK</b>	0.00	-0.01	-1.00	-2.00	-4.00	-7.00
	4.50	4.59	4.57	4.46	4.38	4.35
<b>CA</b>	0.00	0.06	2.00	2.00	-1.00	-3.00
	2.50	2.86	2.95	3.19	3.33	3.41
<b>AU</b>	0.00	-0.01	-1.00	0.00	2.00	0.00
	5.50	5.57	5.61	5.58	5.52	5.45
<b>NZ</b>	0.00	0.02	1.00	4.00	7.00	9.00
	6.75	6.98	7.04	7.01	6.90	6.72
<b>SZ</b>	0.00	0.00	0.00	-1.00	-1.00	-1.00
	0.75	0.76	0.79	0.89	1.01	1.15

**United States**  
Cesar Guerra  
[cguerra@valance.us](mailto:cguerra@valance.us)

**Euroland**  
Sean O'Reilly  
[soreilly@valance.us](mailto:soreilly@valance.us)

**Japan**  
Davin Patton  
[dpatton@valance.us](mailto:dpatton@valance.us)

**United Kingdom**  
Gabe Webber  
[gwebber@valance.us](mailto:gwebber@valance.us)

**China**  
**Canada**  
La-Toya Elizee  
[lelizee@valance.us](mailto:lelizee@valance.us)

**Australia**  
**New Zealand**  
Milo Prochazka  
[mprochazka@valance.us](mailto:mprochazka@valance.us)

**Sweden**  
**Switzerland**  
**China**  
Evelyn Richards  
[erichards@valance.us](mailto:erichards@valance.us)

This document is for information purposes only and should not be regarded as an offer to sell or as a solicitation of an offer to buy the products mentioned in it. No representation is made that any returns will be achieved. Past performance is not necessarily indicative of future results; any information derived herein is not intended to predict future results. This information has been obtained from various sources, including where applicable, entered by the user; we do not represent it as complete or accurate. Users of these calculators are hereby advised that Valance Co., Inc. takes no responsibility for improper, inaccurate or other erroneous assumptions to the extent such data is entered by the user hereof. Opinions expressed herein are subject to change without notice. The securities mentioned in this document may not be eligible for sale in some states or countries, nor suitable for all types of investors

Valance Economic Reports

Valance Co., Inc.

# Valance Economic Report: United States

Cesar Guerra  
(340) 692-7710

[cguerra@valance.us](mailto:cguerra@valance.us)

August 24, 2005

This week's light economic data showed weak durable goods orders and healthy absolute levels of home sales. However, some of the housing details, including price and supply measures, are showing some signs of weakness. Redbook and ICSC show retail sales growth on a M/M basis in August as down 0.9% and up 0.2%, respectively.

## Weekly Highlights

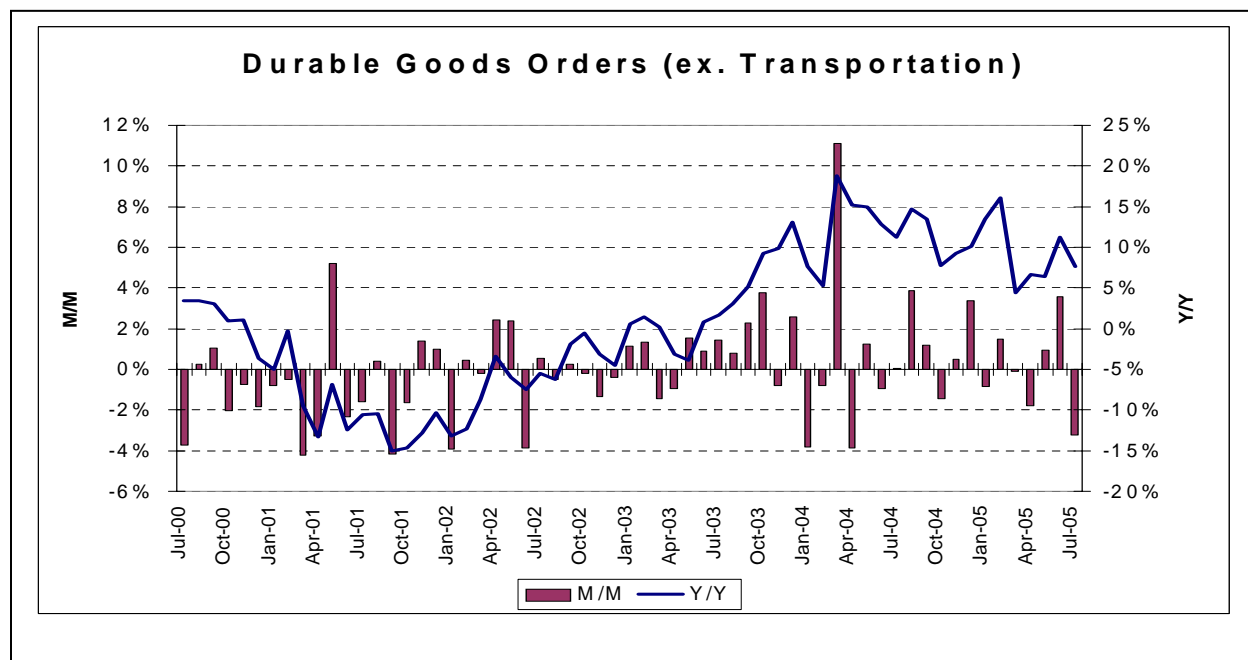
**Durable Goods Orders** – excluding transportation, dropped 3.2% M/M in July. (page 2)

**Housing Sales**– volumes remain at healthy levels, but price gains are softening. (page 4)

**Unemployment Claims**– remain at healthy levels. (page 5)

## Weekly Releases

### Chart of the Week: *Durable Goods ex. Transportation*



Durable Goods Orders, excluding transportation, decreased 3.2% M/M and increased 7.6% Y/Y in July, below expectations. Thus far, investment spending does not appear to be “picking up the slack” in the economy as the Fed would like, but this series is notoriously volatile and needs to be monitored closely.

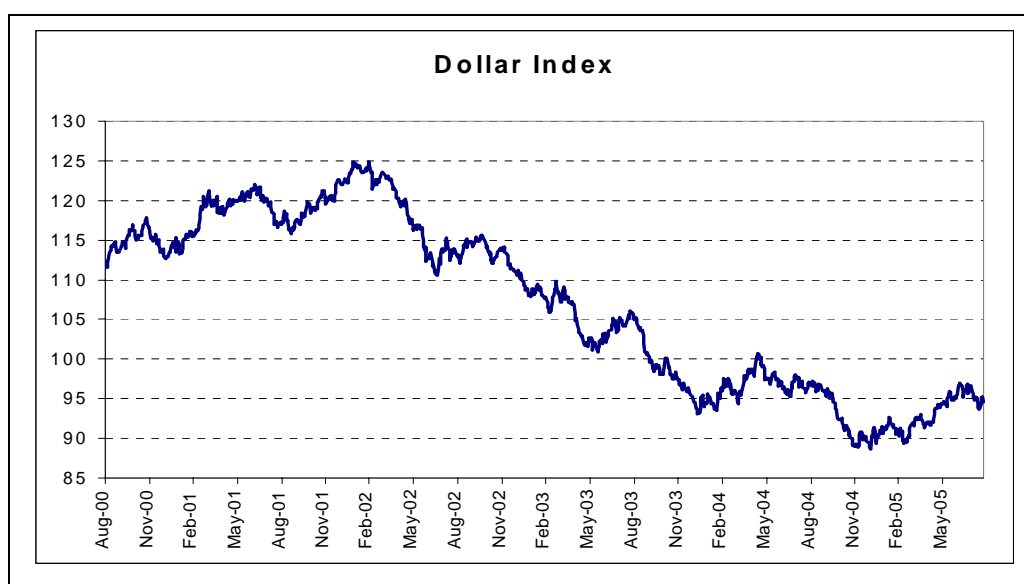
## U.S. Financial Balances & Trade Weighted Dollar

### Financial Balances

	Latest period (\$bns)	Last 12mo. as a % of GDP
Budget Balance	-57.8 (July)	-2.6%
Trade Balance	-58.8 (June)	-5.4%
Current Account Balance	-195.1 (Q1)	-5.8%
Private Balance		-3.2%

The budget deficit is currently at \$319 billion on a trailing twelve month basis and the CBO is estimating that the deficit will end fiscal year 2005 at \$331 billion, down \$81 billion from 2004. The CBO is also forecasting that the deficit will remain above \$300 billion until 2011 when the 2001 tax cuts are scheduled to expire-largely due to elevated defense spending. The trade balance in June also widened as the growth in exports was not large enough to reduce the large gap between the levels of imports and exports. The budget deficit remains too small to support a robust and sustained expansion. As mortgage equity extraction slows and debt service levels increase- fragility in the economy should become more evident.

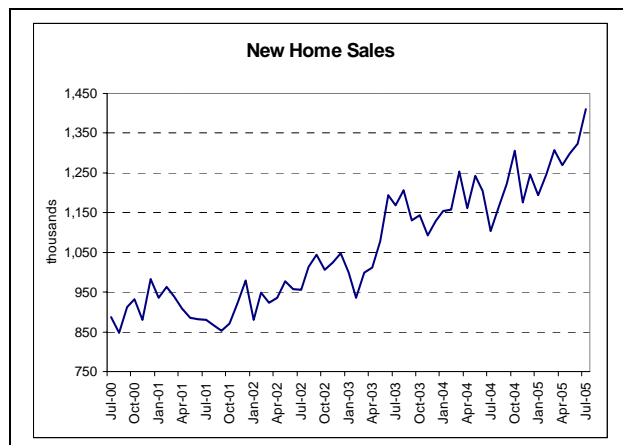
### Trade Weighted Dollar



## Housing

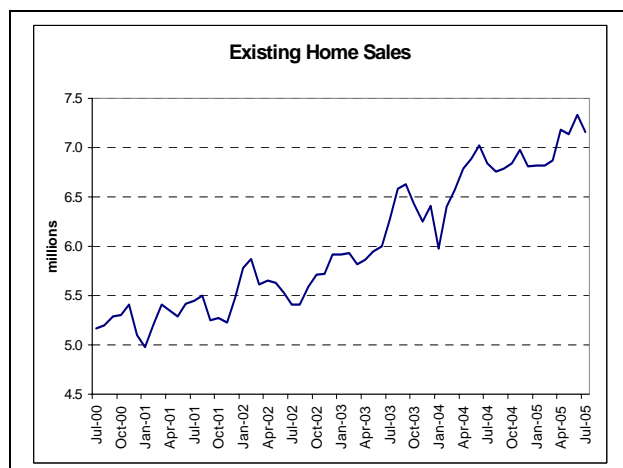
### New Home Sales

*New Home Sales increased 6.5% M/M to 1.410 million on a seasonally adjusted annual rate in July. Median prices dropped for the third straight month and Y/Y growth is down 4%.*



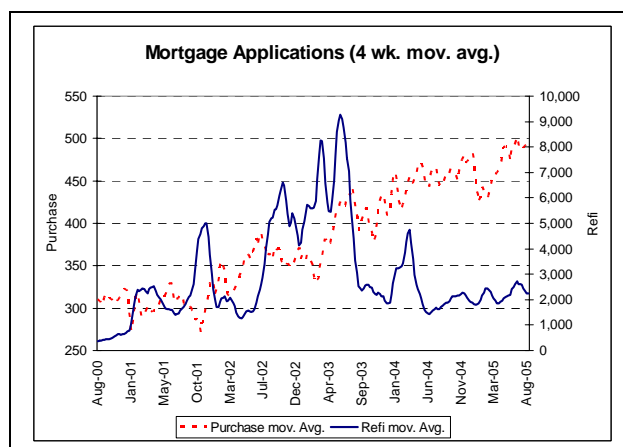
### Existing Home Sales

*Existing Home Sales decreased to 7.16 million on a seasonally adjusted annual rate basis in July from 7.33 in June. Median home prices were relatively flat increasing from 217k to 218k M/M, but Y/Y growth is over 14%. The supply of homes has reached 4.6 months worth after ending 2004 at 3.9 months.*



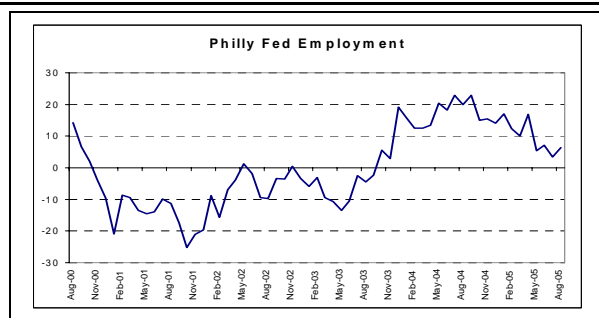
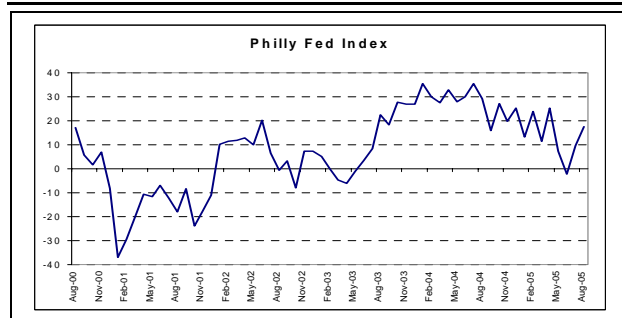
### MBA Mortgage Applications

*Purchase and refinancing mortgage applications decreased 2.2% and increased 1.2%, respectively this week. Despite the drop this week, Y/Y growth of purchase application is 10%.*



## Philly Fed, Leading Indicators & Continuing Claims

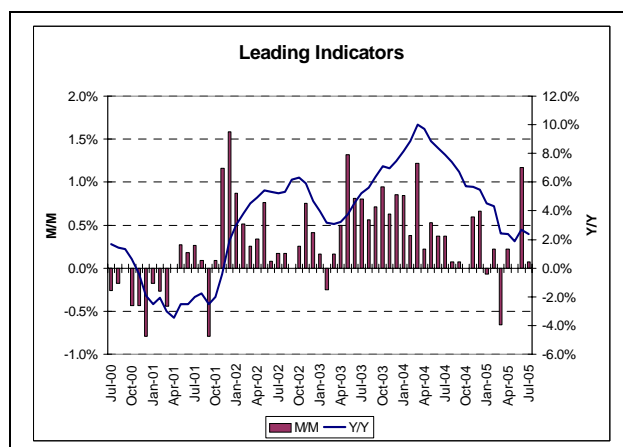
### Philly Fed Index



The Philly Fed Index increased from 9.6 to 17.5 in August, another indication that the weakness seen in the manufacturing sector in June was temporary. The employment component increased from 3.4 to 6.3 and the prices paid and received components were both lower in August.

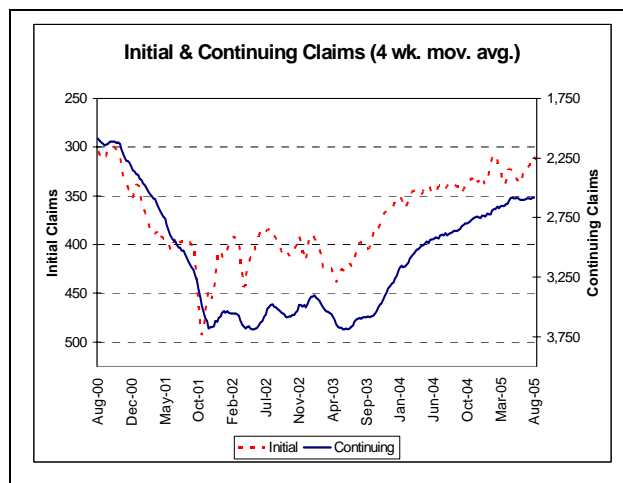
### Leading Indicators

Leading Indicators increased 0.1% M/M and 2.4% Y/Y in July. The largest negative contributor was the flattening of the yield curve. The largest positive contributor was from gains in stock prices that have now started to fade.



### Initial & Continuing Claims

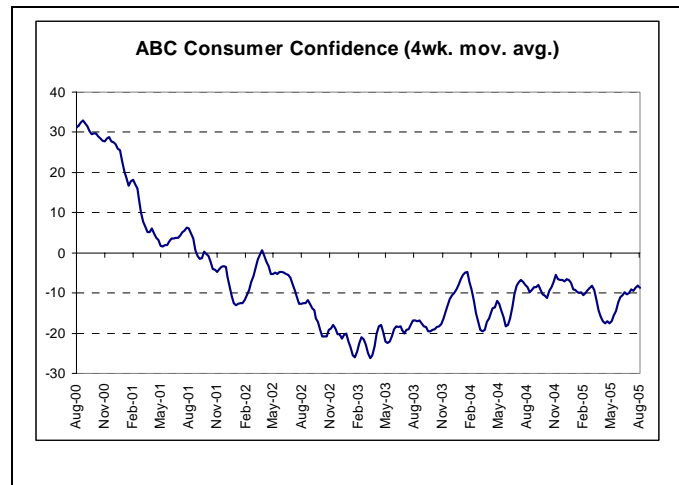
The four-week moving average of initial and continuing claims increased slightly to 313k and 2,586k, respectively. The level of continuing unemployment claims is again signaling for an above trend payroll number in August.



## Consumer Confidence & Upcoming Dates

### ABC Consumer Confidence

The ABC Consumer Confidence Index slipped from -7 to -9. The finance component remained flat at 22, but the economic and buying components weakened by four points.



### Key Dates This Week

Date	Indicator	Expectation	Previous
08/25	Initial Jobless Claims (AUG 20)	315K	316K
08/25	Continuing Claims (AUG 13)	2,575K	2,593K
08/25	Help Wanted Index (JUL)	38	38
08/26	U. of Michigan Confidence (AUG)	95.5	92.7
08/30	Consumer Confidence (AUG)	102.0	103.2
08/30	Factory Orders (JUL)	0.2%	1.0%
08/30	ABC Consumer Confidence (AUG 28)	NA	-9
08/31	MBA Mortgage Applications (AUG 26)	NA	-0.7%
08/31	GDP Annualized	3.4%	3.4%
08/31	Personal Consumption	NA	3.3%
08/31	Chicago Purchasing Manager (SEP)	61.0	63.5

Valance Co., Inc.

# Valance Economic Report: Euro Zone

Sean O'Reilly

(340) 692-7710

[soreilly@valance.us](mailto:soreilly@valance.us)

August 24, 2005

As amazing as it sounds, the Euro Zone consumer actually fared worse than expected in Q2. Real Private Consumption contracted in both France and Germany as rising oil prices and an ailing job market continued to weigh on consumers. Euro Zone investor and business confidence continued to rise in August, however, a positive sign that at least Q3 has gotten off on the right foot.

## Weekly Highlights

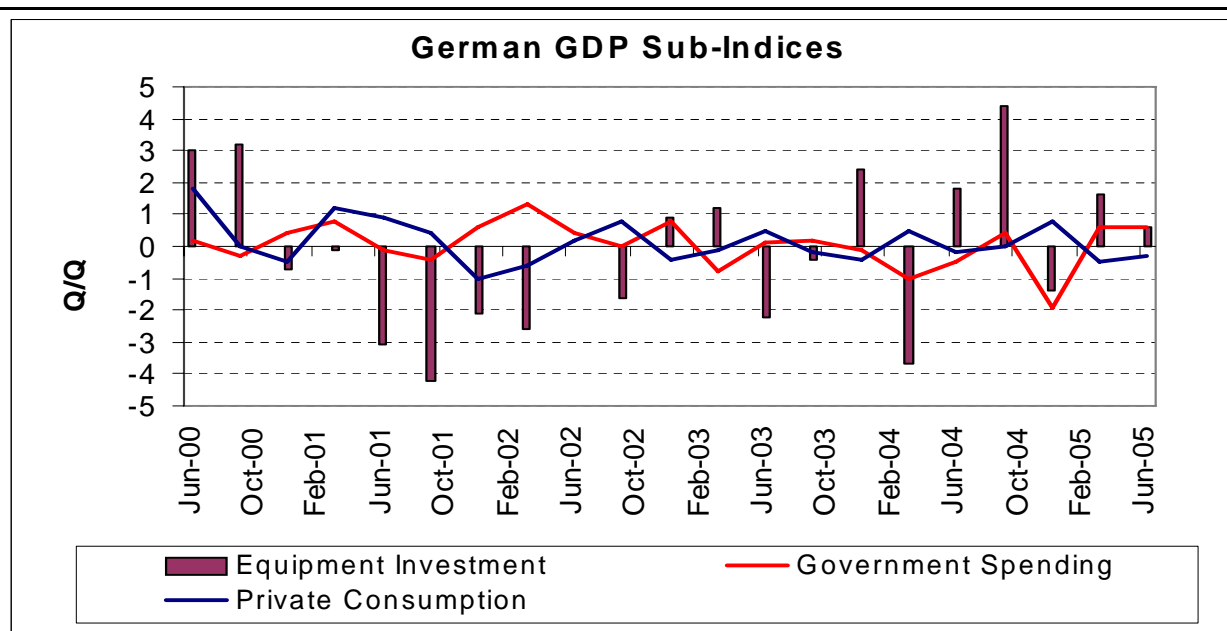
**German GDP** –real private consumption continued to decline in Q2. (page 7)

**Euro Zone ZEW** – climbed to a 17 month high, boosted by rising profits. (page 9)

**Euro Zone Core CPI** –core prices slowed in July. (page 10)

## Weekly Releases & News

### Chart of the Week: German GDP



Germany's Q2 Real GDP was unchanged Q/Q as the economy was held back by contracting private consumption. Private consumption fell 0.3% Q/Q (Q1 Private Consumption was also revised downward from -0.2% to -0.5%), suggesting that oil prices and high unemployment are continuing to weigh on the economy. Domestic demand expanded 0.3% Q/Q, but was almost solely due to a 0.6% increase in government spending. Equipment investment expanded 0.6%, Construction investment contracted 0.2%, and exports slowed from 2.5% Q/Q to 1.2%.

This document is for information purposes only and should not be regarded as an offer to sell or as a solicitation of an offer to buy the products mentioned in it. No representation is made that any returns will be achieved. Past performance is not necessarily indicative of future results; any information derived herein is not intended to predict future results. This information has been obtained from various sources, including where applicable, entered by the user; we do not represent it as complete or accurate. Users of these calculators are hereby advised that Valance Co., Inc. takes no responsibility for improper, inaccurate or other erroneous assumptions to the extent such data is entered by the user hereof. Opinions expressed herein are subject to change without notice. The securities mentioned in this document may not be eligible for sale in some states or countries, nor suitable for all types of investors.

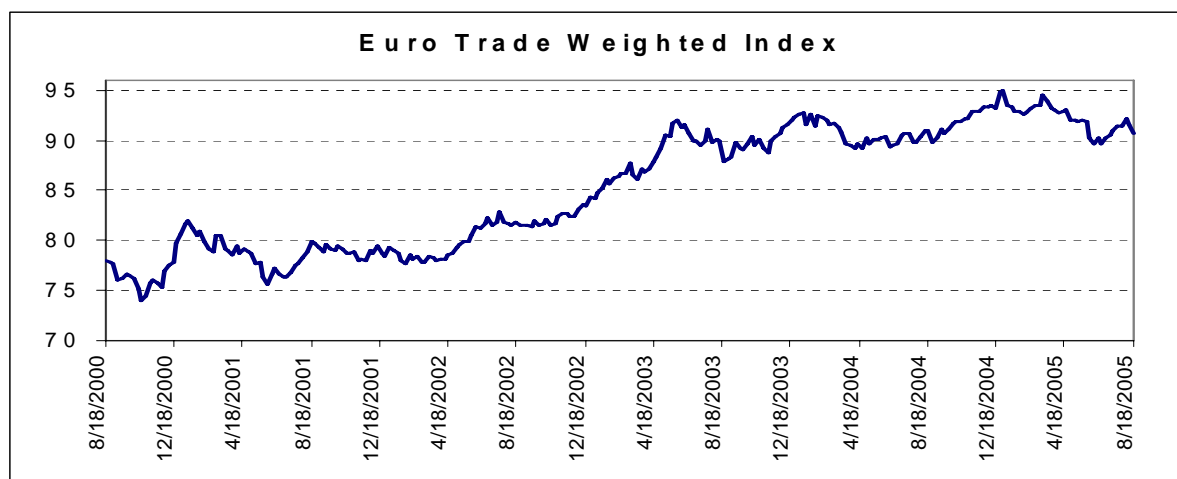
## ***Euro Zone Financial Balances & Trade Weighted Euro***

### ***Financial Balances***

<i>Germany</i>	<i>Last period (\$bns euros)</i>	<i>Last 12mo. as a % of GDP</i>
Budget Balance	-80.3 (12/04)	-3.6%
Trade Balance	12.1 (May)	7.1%
Current Account Balance	5.2 (May)	3.6%
Private Savings Balance		7.2%
<i>France</i>		
Budget Balance	-5.15 (May)	-3.4%
Trade Balance	-1.25 (May)	-1.3%
Current Account Balance	-2.87 (May)	-1.0%
Private Savings Balance		2.4%
<i>Italy</i>		
Budget Balance	-3.4 (July)	-3.5%
Trade Balance	-0.36 (May)	0.4%
Current Account Balance	-3.2 (May)	1.2%
Private Savings Balance		4.7%

Euro area public deficits will most likely overshoot their official targets once again in 2005 as growth this year has proven much weaker than forecasted. Initial 2006 budget drafts also suggest overly optimistic growth forecasts. Citigroup forecasts an average euro area deficit of 3.2% in 2005 and 3.4% in 2006, above the EU's 3% limit.

### ***Trade Weighted Euro***

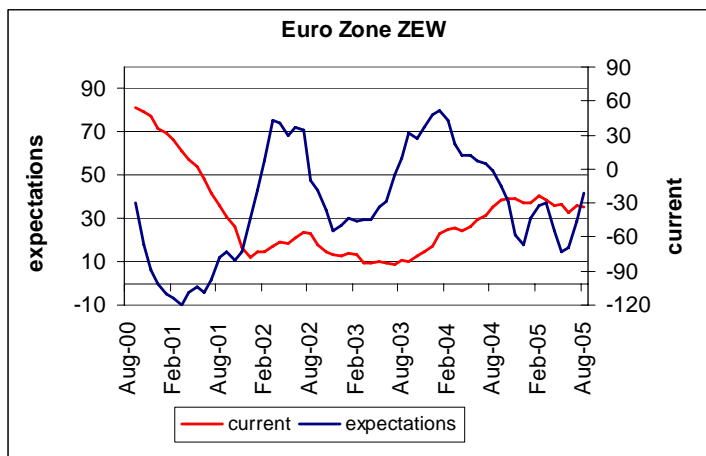




## Euro Zone ZEW, German ZEW, & French GDP

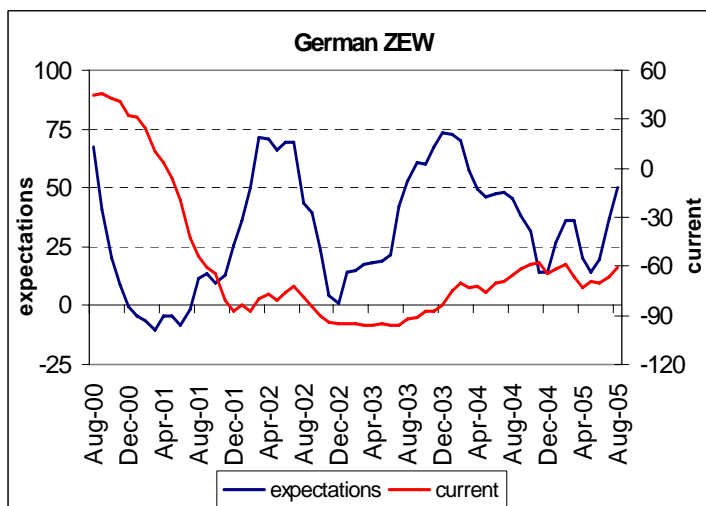
### Euro Zone ZEW

The Euro Zone's August ZEW economic sentiment increased much more than expected, rising from 29.0 in July to 41.6 as optimism concerning profit margins, exports and increased spending all rose. Expectations were for an increase to 33.0. The current sentiment index fell from -32.6 to -33.3.



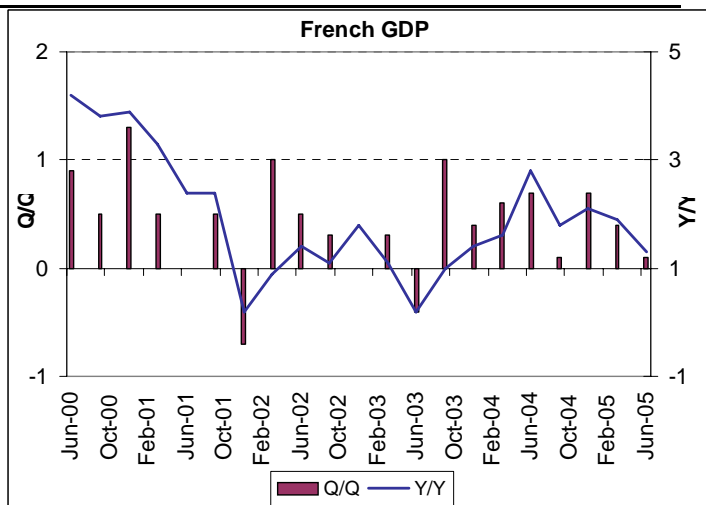
### German ZEW

Germany's August ZEW economic expectations index soared from 37.0 in July to 50.0, as export expectations and increased investment boosted optimism among investors. The current sentiment survey increased slightly, rising from -66.7 to -61.1.



### French GDP

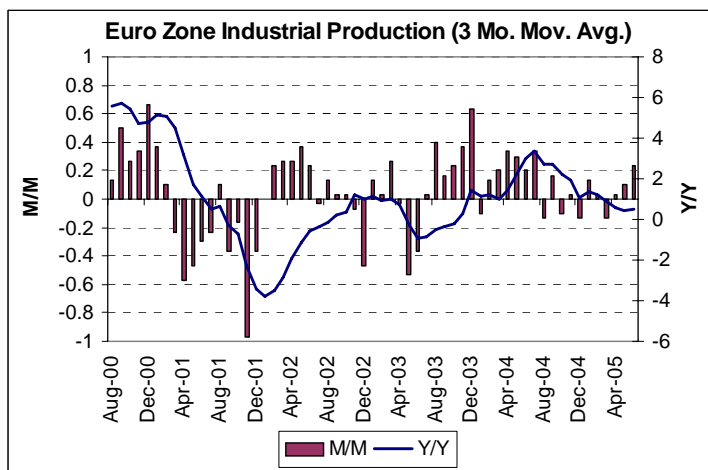
France's Q2 real GDP expanded 0.1% Q/Q and 1.3% Y/Y, slowed by falling consumer spending. Consumer Spending (about 54% of the economy) contracted 0.3% Q/Q, the largest contraction since Q4, 1996. Business investment also fell, declining 1.2% Q/Q.



## ***Euro Zone Ind. Pro., German Exports & Spanish Factory Orders***

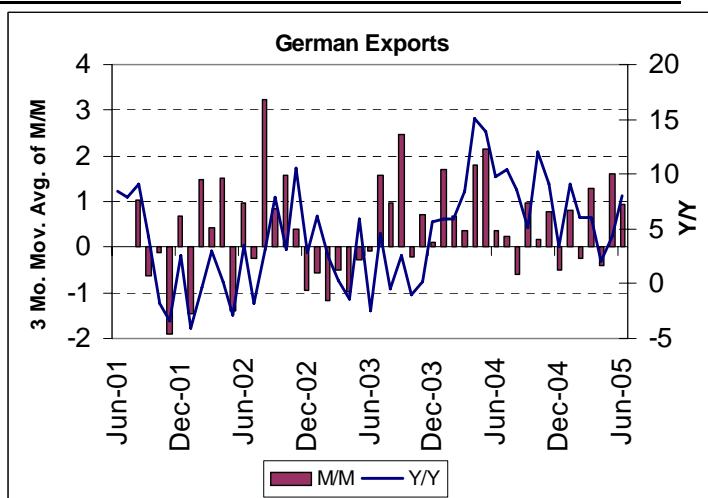
### ***Euro Zone Industrial Production***

*The Euro Zone's June Industrial Production increased 0.3% M/M and 0.3% Y/Y.*



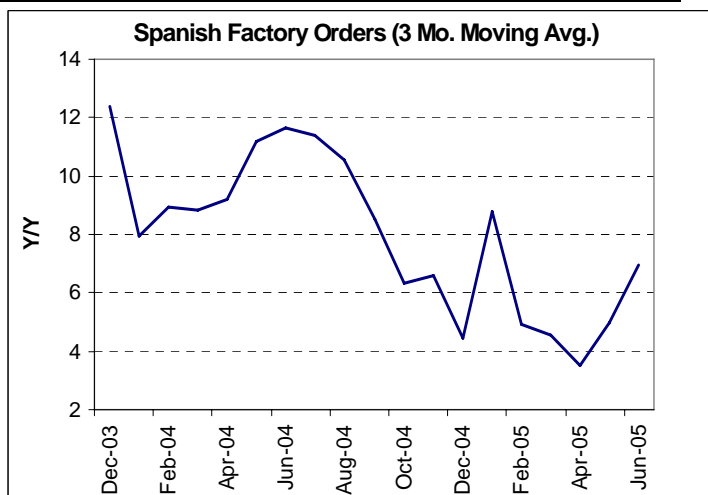
### ***German Exports***

*Germany's June Exports fell 0.4% M/M while increasing 8% Y/Y. On a Q/Q basis, Q2 exports expanded 1.2% Q/Q after expanding 2.5% Q/Q in Q1.*



### ***Spanish Factory Orders***

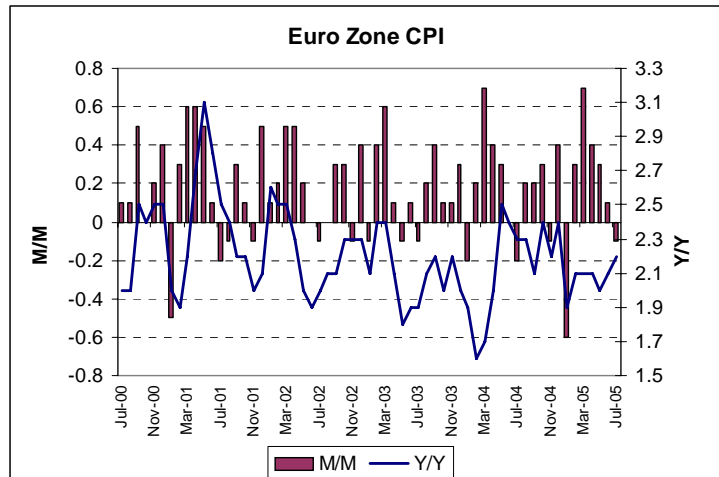
*Spain's June Factory Orders rose 5.9% Y/Y for the 2<sup>nd</sup> consecutive month as the energy component expanded 35.1% Y/Y.*



## Euro Zone CPI & Trade Balance

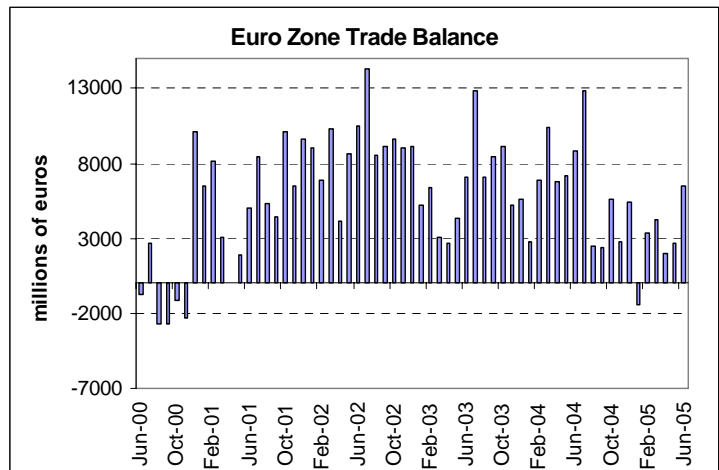
### Euro Zone CPI

*The Euro Zone's July Consumer Prices fell 0.1% M/M while increasing 2.2% Y/Y. Core prices slowed from 1.4% Y/Y in June to 1.3%.*



### Euro Zone Trade Balance

*The Euro Zone's June Trade Surplus widened from 2.7 billion euros in May to 6.5 billion euros as exports accelerated after declining in May. Exports grew 7.1% M/M and 6.7% Y/Y while Imports grew 3.5% M/M and 10% Y/Y.*



## News & Upcoming Dates

**Aug 24<sup>th</sup> – French Manufacturers** cut their 2005 estimate of investment spending as high oil prices continue to crimp growth. Manufacturers now expect to expand spending by 3% Y/Y, down from their previous 4% forecast. The survey excludes construction, public works, and water and energy distribution.

**Aug 22<sup>nd</sup> – The IMF raised its 2005 Italian GDP forecast** from a contraction of 0.3% Y/Y to unchanged Y/Y growth, citing strong Q2 growth. Finance Minister, Domenico Siniscalco stated that the IMF may also raise Italy's 2006 growth forecast when they release their new outlook report.

**Aug 19<sup>th</sup> – The IMF lowered its 2006 German growth forecast** from 1.9% to 1.3% as it expects the pace of oil price increases to quicken relative to earlier predictions. The IMF also raised its 2005 growth forecast from 0.8% to 1.0%.

**Aug 19<sup>th</sup> – Germany's overhaul of the labor market** is costing more than planned and putting pressure on the budget, the Finance Ministry reported. As of July 31<sup>st</sup>, unforeseen costs totaled 5.1 billion euros and are now expected to reach 8 billion by November. The Jan-July budget deficit stands at 44 billion euros, twice the targeted 22 billion.

**Aug 18<sup>th</sup> – Italian Deputy Finance Minister, Mario Baldassarri**, called for the ECB to cut rates once again, stating that the ECB "uselessly keeps the euro-dollar level high" and that "the economic fundamentals just don't justify it." Baldassarri suggested that an exchange rate in par with the dollar would be most beneficial.

## Key Dates This Week

Date	Indicator	Expectation	Previous
08/25	German IFO Bus. Climate (AUG)	95.2	95.0
08/25	German IFO Expectations (AUG)	95.1	95.0
08/26	Euro Zone M3 (JUL)	7.3% Y/Y	7.5% Y/Y
08/30	Spanish Retail Sales (JUL)	--	2.9% M/M
08/31	French Unemployment Change (JUL)	--	-28k
08/31	German Unemployment Change (AUG)	--	-42k

Valance Co., Inc.

**Valance Economic Report: Japan**

Davin Patton  
(340) 692-7710  
[dpatton@valance.us](mailto:dpatton@valance.us)

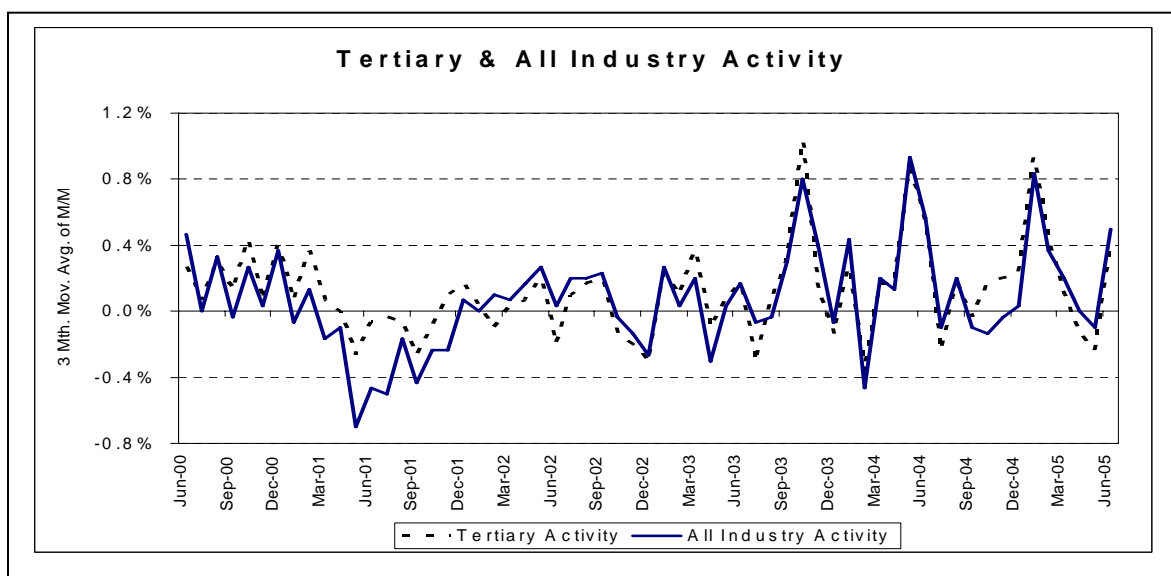
August 24, 2005

Recent data from Japan indicates that the recovery is gaining momentum. June's industry activity indices were stronger than the market anticipated. Details were also supportive as the wholesale, retail, IT, and communications sectors all posted positive numbers. Looking forward, we expect the trade balance to continue to narrow as domestic demand continues to gather strength.

**Weekly Highlights**

**Industry Activity Index** – increased 1.3% M/M in June. (page 13)

**Tertiary Industry Index** – increased 1.3% M/M in June. (page 13)

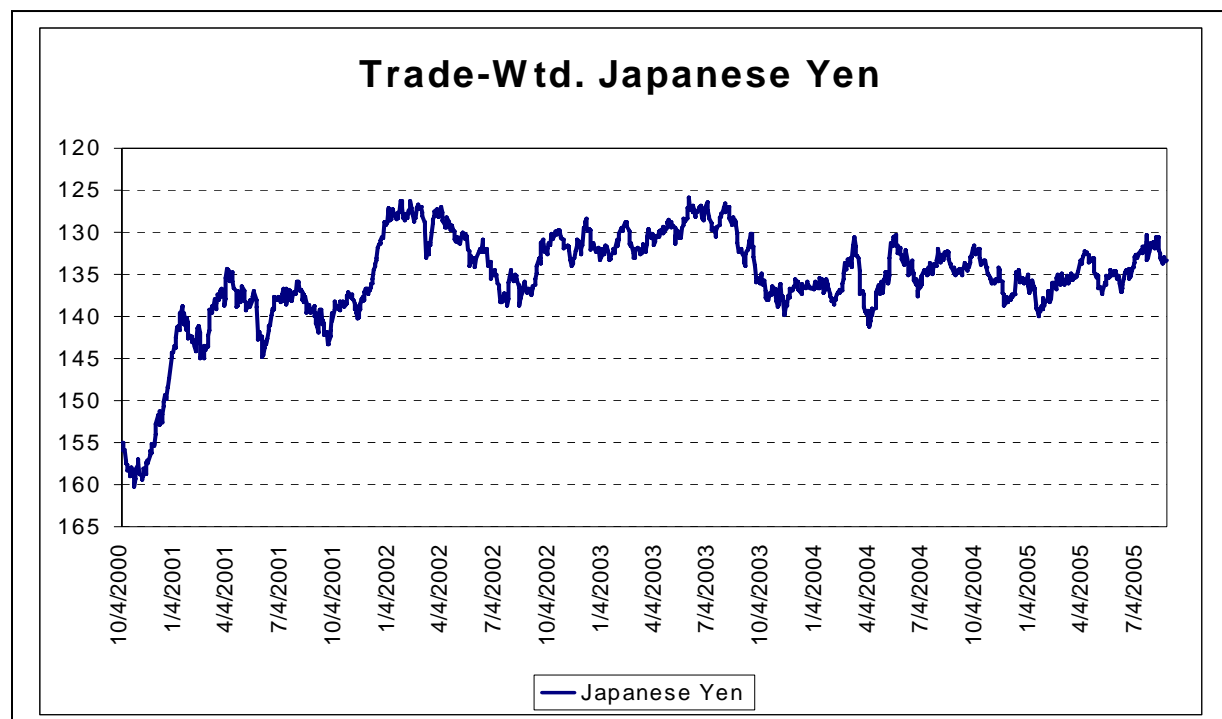
**Weekly Releases & News****Chart of the Week: *Industry Activity***

The All Industry Activity Index increased 1.3% M/M and 1.7% Y/Y in June. The Tertiary Industry Index increased 1.0% M/M and 2.0% Y/Y in June. Details behind the numbers were promising as the wholesale and retail activity component increased 0.8% M/M and 1.4% Y/Y. The Information and communications component increased 7.5% M/M and 1.0% Y/Y. The increases were ahead of economists expectations, which called for a 1.0% M/M All Industry Activity Index increase.

## Japan Financial Balances

### Financial Balances

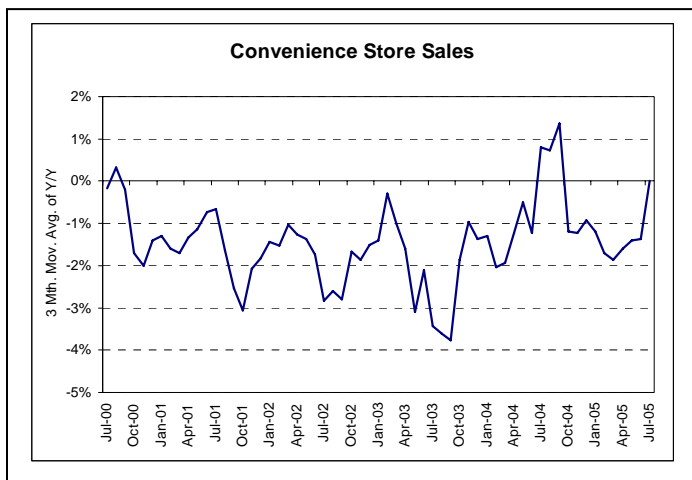
<i>Japan</i>	<i>Last period (¥trln)</i>	<i>Last 12mo. as a % of GDP</i>
Budget Balance	-3.03 (May)	-6.9%
Trade Balance	0.69 (June)	2.2%
Current Account Balance	1.50 (June)	5.2%
Private Balance		12.1%



## Convenience Store Sales, Department Store Sales & Machine Tool Orders

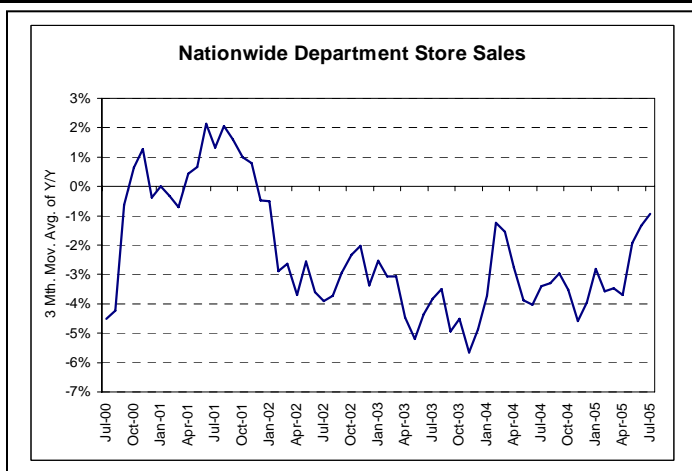
### Convenience Store Sales

Convenience Store Sales declined 4.7% Y/Y in July (on a same store basis), although customer spending in convenience stores increased 0.4% Y/Y and the number of stores increased 2.6% Y/Y.



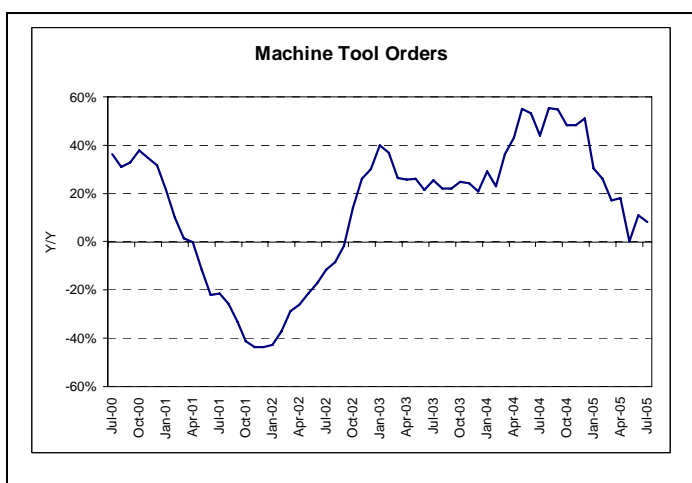
### Department Store Sales

Department Store Sales in Japan increased 1.1% Y/Y in July.



### Machine Tool Orders

Machine Tool Orders increased 8.1% Y/Y in July.



---

## **News**

---

---

### ***Political Update – Surveys on Koizumi's LDP & Postal Privatization***

---

Prime Minister Koizumi's LDP Party support has remained strong. A poll conducted on Aug 20<sup>th</sup>-21<sup>st</sup> found that 37% of those surveyed stated that they would vote for the LDP while 19% stated that they supported the DPJ. Although the LDP number was unchanged from the last survey conducted, the DPJ lost two points. Recent surveys also suggest that the LDP may capture the support of independents, who account for roughly 40% of the voters. In a separate survey conducted last weekend, Koizumi's cabinet had an approval rating of 49%, 2pts higher than a similar survey conducted earlier this month. On the issue of the postal reform, according to a Mainichi Survey conducted Aug 12<sup>th</sup>-16<sup>th</sup>, 63.6% of those surveyed supported Koizumi's plan to privatize the postal agency. Combined, these surveys suggest that Koizumi may remain in power through the upcoming September 11<sup>th</sup> elections. Despite this, Koizumi announced that those who voted against the postal bill may change their minds if the LDP is successful in the Sep. 11<sup>th</sup> election.

---

### ***Supermarket Sales***

---

Supermarket Sales increased 5.6% M/M and declined 2.3% Y/Y in July. The M/M increase was the largest since March.

---

### ***Corporate Service Prices***

---

Corporate Service Prices declined 0.1% M/M and 0.7% Y/Y as the 3mth annualized rate declined from 0.4% to -1.1%. The decline was due largely to a 3.2% M/M decline in Advertising.



## Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
08/24	Adjusted Merchandise Trade Balance (Jul)	¥653.3 bln	¥694.4 bln
08/25	Tokyo CPI (Aug M/M SA)	0.1%	0.2%
08/25	Tokyo CPI x Fresh Food (Aug M/M SA)	0.1%	-0.1%
08/25	Tokyo CPI (Aug Y/Y)	-0.3%	-0.3%
08/25	Tokyo CPI x Fresh Food (Aug Y/Y)	-0.3%	-0.4%
08/25	Nat'l CPI x Fresh Food (Aug M/M SA)	0.0%	-0.1%
08/25	Nat'l CPI (Aug Y/Y)	-0.3%	-0.5%
08/29	Consumer Confidence (Jul)	48.2	46.8
08/29	Consumer Confidence Households (Jul)	48.5	46.6
08/29	Unemployment Rate (Jul)	N/A	4.2%
08/29	Job-Applicant Ratio (Jul)	N/A	4.2%
08/29	Workers' Household Spending (Jul M/M)	N/A	-1.4%
08/29	Workers' Household Spending (Jul Y/Y)	N/A	0.1%
08/29	Average Lending Rate (Jul)	N/A	1.395%
08/29	Large Retailers' Sales (Jul)	N/A	-2.1%
08/29	Retail Trade (Jul Y/Y)	2.7%	3.1%
08/29	Retail Trade (Jul M/M)	N/A	0.0%
08/30	Nomura/JMMA Manufacturing PMI (Aug.)	N/A	N/A
08/30	Industrial Production (Jul M/M)	N/A	1.6%
08/30	Industrial Production (Jul Y/Y)	N/A	0.2%
08/30	Labor Cash Earnings (Jul Y/Y)	N/A	1.5%
08/30	Overtime Earnings (Jul Y/Y)	N/A	2.8%
08/31	Housing Starts (Jul Y/Y)	N/A	2.4%
08/31	Annualized Housing Starts (Jul)	N/A	1.222 mln
08/31	Construction Orders (Jul Y/Y)	N/A	-5.2%
08/31	Small Business Confidence (Aug)	N/A	48.8

Valance Co., Inc.

**Valance Economic Report: United Kingdom**

Gabriel Webber

(340) 692-7710

[gwebber@valance.us](mailto:gwebber@valance.us)

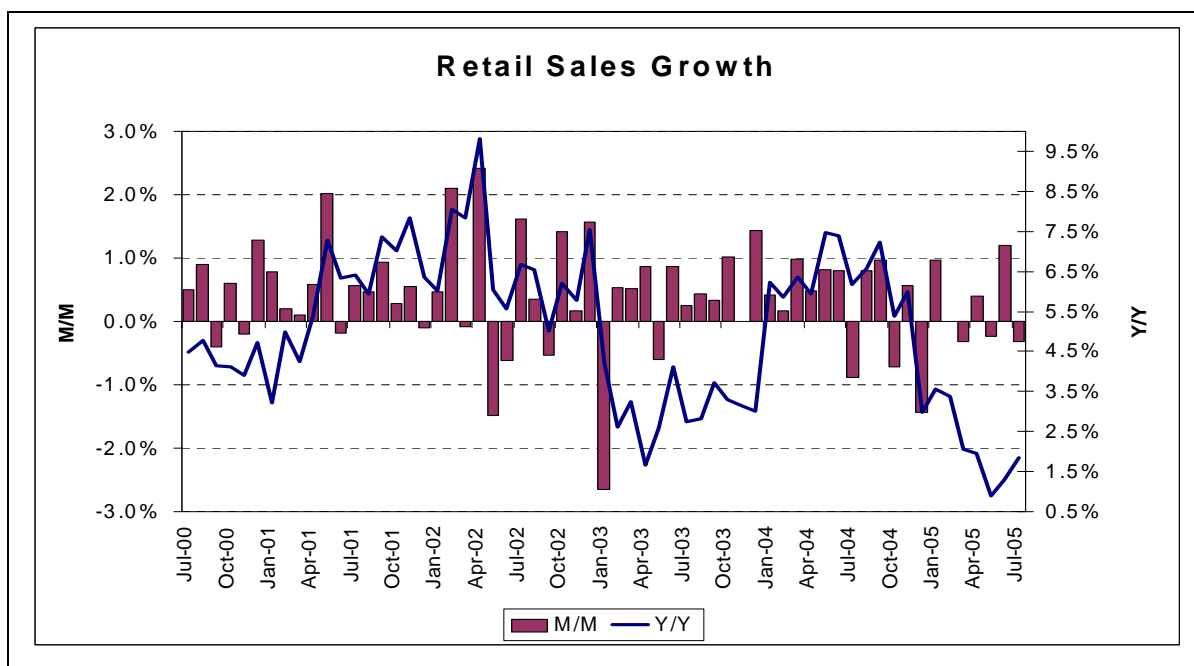
August 24, 2005

**A relatively quiet week in the UK: Retail Sales declined after posting a rebound the prior month. Sentiment has shifted towards the MPC keeping rates on hold through the end of the year; however, if the consumer continues to disappoint, the MPC may well change their view.**

**Weekly Highlights**

**Retail Sales-** decreased 0.3% M/M and increased 1.9% Y/Y in July. (page 18)

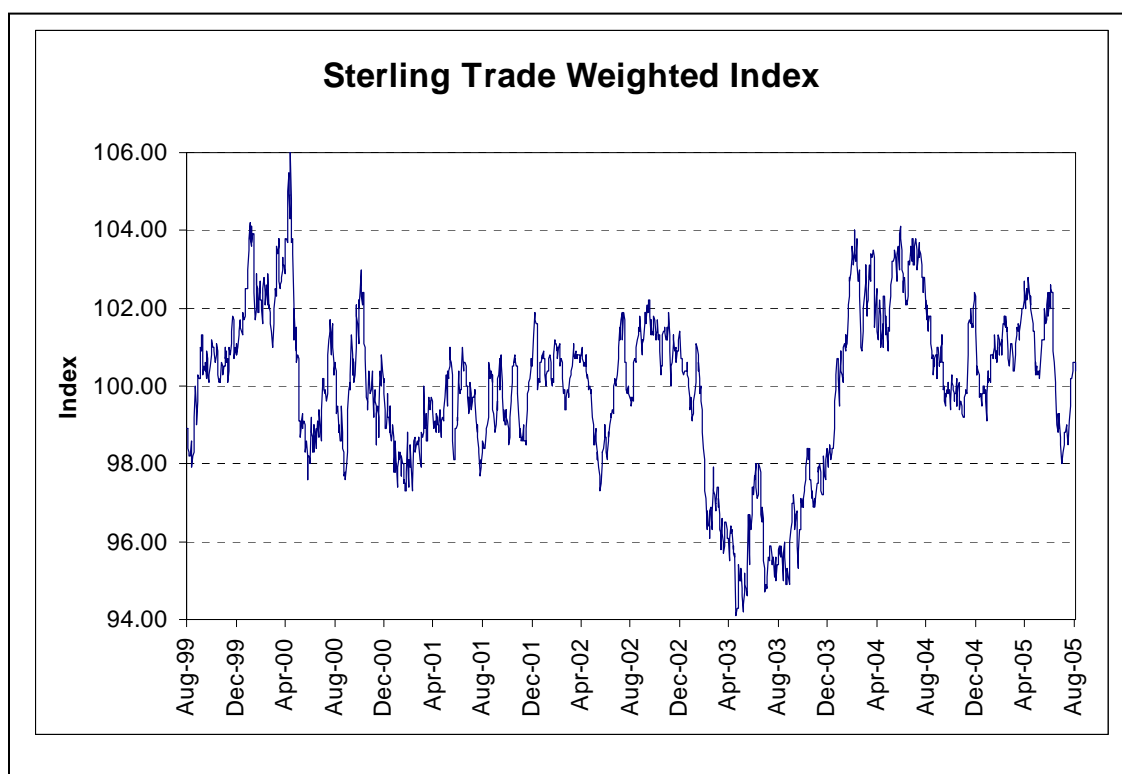
**Budget Deficit-** increased from -£2.0 billion in July of 2004 to -£2.9 billion in July of 2005. (page 20)

**Weekly Releases & News****Chart of the Week: Retail Sales Growth**

Retail Sales decreased 0.3% M/M and increased 1.9% Y/Y in July as oil prices continue to climb and the sagging housing market continues to sap the strength of the consumer. All sectors decreased M/M except food stores and textile, clothing and footwear stores. In addition, June's data was revised down 0.2% M/M to 1.2% M/M.

## Financial Balances

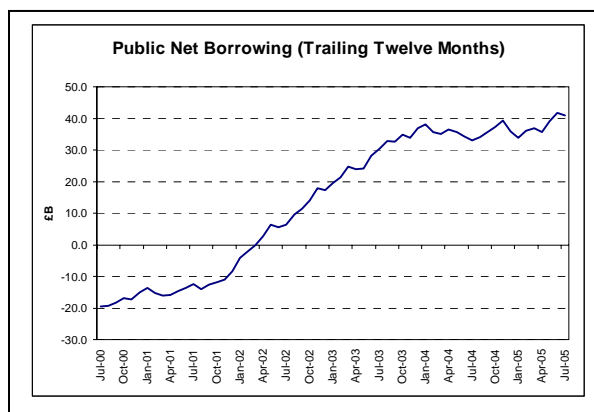
	<i>Last Period (billions)</i>	<i>Last 12m % of GDP</i>
Budget Balance (monthly)	-£2.9 (July)	-1.0%
Trade Balance (monthly)	-£2.5 (June)	-0.8%
Curr. Acct. Balance (quarterly)	-£5.8 (March)	-2.0%
Private Balance		-2.9%



## ***Budget Deficit & Housing Data***

### ***Budget Deficit***

*The Budget Deficit increased from -£2.0 billion in July of 2004 to -£2.9 billion in July of 2005. Though corporate taxes have increased, they now need to jump 37.4% over the next eight months of the financial year to meet the Budget's forecast of £32 billion. Gordon Brown's Budget was based on a 28.8% rise in corporate tax revenues for 2005/2006; they are currently up only 15.4% at an annualized rate in the first four months of the financial year.*



### ***Housing Data***

#### **Council of Mortgage Lenders**

The Council of Mortgage Lenders (CML) reported that mortgage lending decreased 1.6% M/M and 19.0% Y/Y in July. The proportion of mortgage lending for house purchases remained static in July at 47% and the proportion of loans going to first-time buyers remained the same at 29%.

#### **British Banker's Association**

The British Banker's Association (BBA) reported that net mortgage lending decreased 21% M/M in July, slowing from the recent trend and the weakest month in more than 3½ years. The BBA reported that the slowdown probably was attributed partly to consumers "waiting for the widely anticipated cut in interest rates in August."

#### **CBI Industrial Trends Survey**

The CBI Industrial Trends Survey reported that new orders decreased from -20 to -29 in August, the lowest since October 2003. The recent rise in oil prices and a weak export market to Euroland have made it difficult for UK factories to emerge from a recession. Though, overall export orders did increase slightly from -17 to -13.

## *Key Dates This Week*

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
08/25	Nationwide House Prices	0.0% M/M 2.5% Y/Y	0.2% M/M 2.6% Y/Y
08/25	CPI	--	0.0% M/M 2.0% Y/Y
08/25	BBA Mortgage Lending	--	--
08/26	GDP 2 <sup>nd</sup> Revision Q2	0.5% Q/Q 1.8% Y/Y	0.4% Q/Q 2.1% Y/Y
08/26	Exports Q2	1.9% Q/Q	-0.9% Q/Q
08/26	Imports Q2	1.6% Q/Q	-1.2% Q/Q
08/30	Net Consumer Credit	--	£1.3B
08/30	Net Lending Sec. on Dwellings	--	£7.5B
08/31	GfK Consumer Confidence	--	-1

Valance Co., Inc.

**Valance Economic Report: Canada**

La-Toya C. Elizee  
 (340) 692-7710  
[lelizee@valance.us](mailto:lelizee@valance.us)

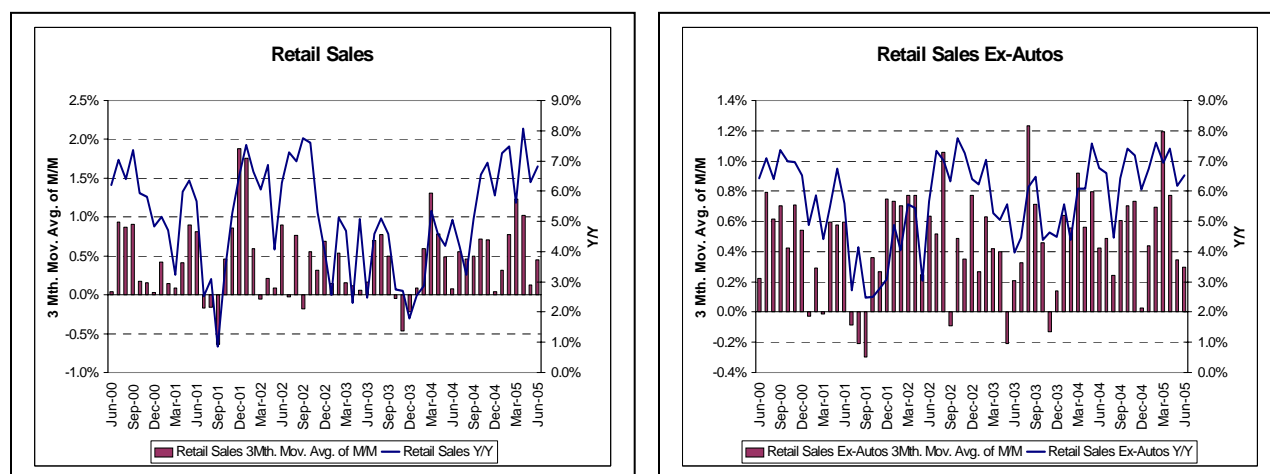
August 24, 2005

**Strong growth in Retail Sales and an advance in the Leading/Composite Index highlighted this past week's data in Canada.**

**Weekly Highlights**

**Retail Sales** – increased 1.1% M/M in June. (page 22)

**The Leading/Composite Index** – increased 0.3% M/M in June. (page 24)

**Weekly Releases & News****Charts of the Week: *Retail Sales***

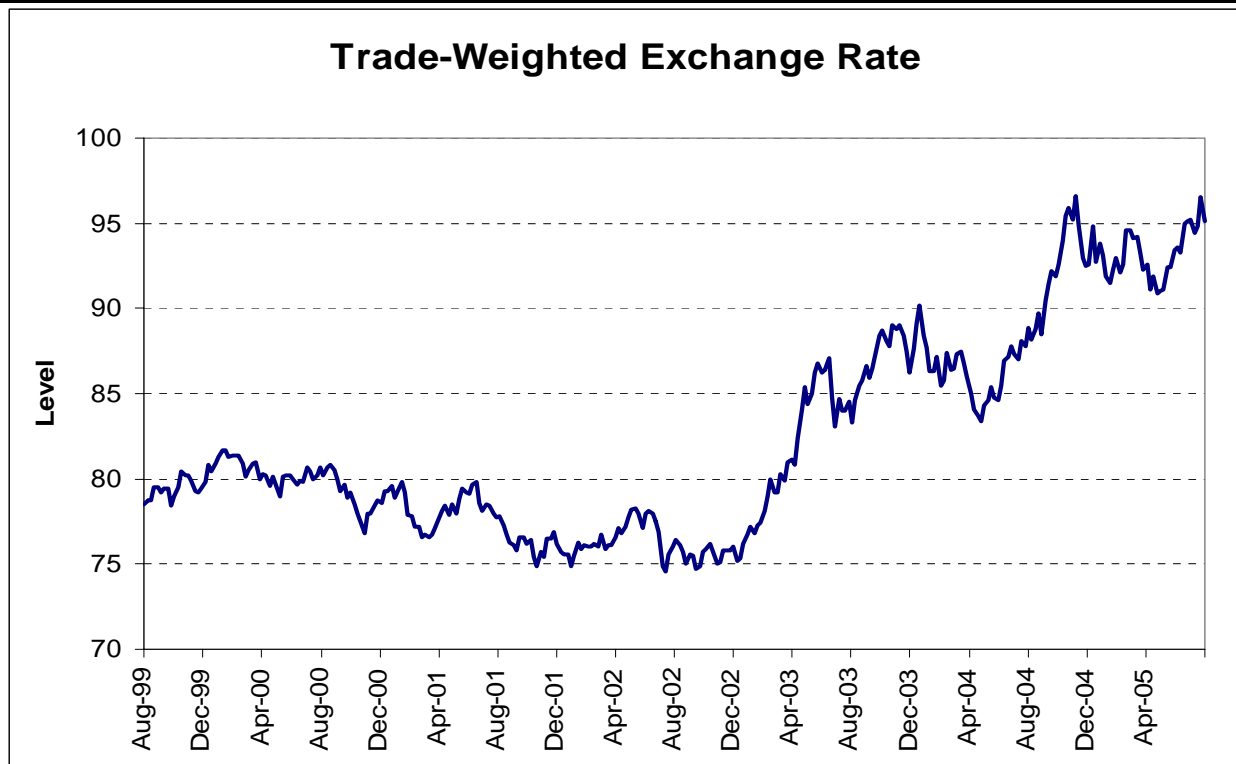
Retail Sales rebounded from -1.3% M/M in May to +1.1% M/M in July. Four of eight sectors recorded improvements from the previous month: Consumers increased their spending in the automotive (+2.9%), general merchandise (+1.1%), furniture and electronics (+1.1%) and clothing (+0.6%) sectors. On the other hand, spending decreased in the food and beverage (-0.5%) and building supplies (-0.4%) sectors, while remaining flat in pharmacies and essentially unchanged (+0.2%) in the miscellaneous sector. Excluding autos, Retail Sales increased 0.4% M/M.

## *Financial Balances*

### *Financial Balances*

	<i>Latest period (C\$bn)</i>	<i>% of GDP</i>
Budget Balance	1.7 (June)	.2%
Trade Balance	4.9 (June)	4.9%
Current Account Balance	3.9 (Q1)	2.2%
Private Balance		2.0%

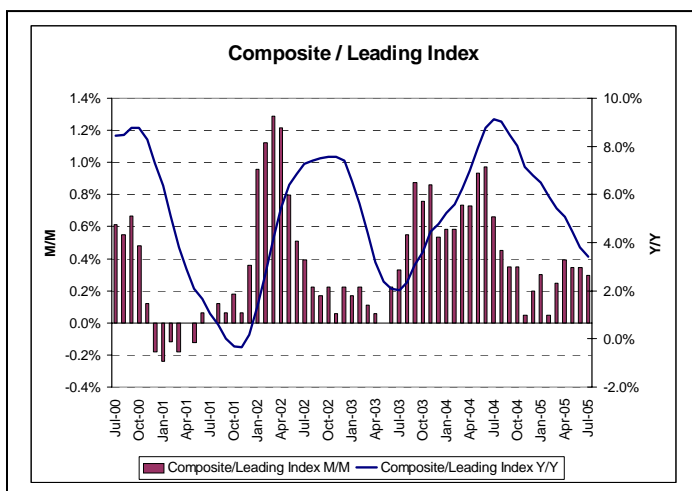
### *Trade Weighted Dollar*



## Composite/Leading Index & News

### Composite/Leading Index

The Composite/Leading Index increased 0.3% M/M in July, in line with expectations. Seven of the ten components increased with the household demand component posting the greatest contribution.



### Existing Home Sales

The Canadian Real Estate Association forecast a total of 466,200 existing homes sales this year, a 1.1% increase from last year's record of 461,100. In May the association had forecast that rising mortgage rates and home prices would cause sales to decrease 3.2%.

### Comments from Finance Minister Goodale

#### *On gasoline prices:*

“As prices rise, that does put the squeeze on some consumer pocketbooks, and that's a matter of concern that the government is interested not just in following closely, but in determining when and if some action is required.”

“But we want it to be effective action that actually gets to the pockets of consumers.”

“The good news is that all of the analysts expect this spike to subside in a couple of weeks.”

#### *On Canada's economy and his next budget update:*

“I don't anticipate a budget in the fall. The fiscal update comes in October or November; that's midway through the fiscal year, an opportunity for me to update the numbers.”

“It's a state of economy kind of report, and I think it will be a very positive one because this economy is strong.”



---

## *News & Upcoming Dates*

---

### *Speech by BoC's Deputy Governor Kennedy Cancelled*

---

A speech by the Bank of Canada's Deputy Governor, Sheryl Kennedy, scheduled for Aug. 25<sup>th</sup> has been cancelled. This was the last planned public speech by the Bank before its September 7<sup>th</sup> interest rate decision meeting.

### *Employment Insurance*

---

Initial and renewal employment insurance claims decreased 5.2% M/M and 12.6% Y/Y in June.

### *Key Dates This Week*

---

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
08/26	Consumer Price Index (M/M) (JUL)	0.3%	0.2%
08/26	Consumer Price Index (Y/Y) (JUL)	2.1%	1.7%
08/26	CPI Excluding Core 8 (M/M) (JUL)	0.1%	0.0%
08/26	CPI Excluding Core 8 (Y/Y) (JUL)	1.5%	1.5%
08/30	Industrial Product Price (M/M) (JUL)	0.2%	0.0%
08/30	Raw Materials Price Index (M/M) (JUL)	2.0%	5.4%
08/30	Current Account (BOP) 2Q	\$4.8B	\$4.0B
08/31	Gross Domestic Product (M/M) (JUN)	0.3%	0.3%
08/31	Quarterly GDP Annualized 2Q	2.9%	2.3%

Valance Co., Inc.

# Valance Economic Report: Australia

Milo Prochazka

(340) 692-7710

[mprochazka@valance.us](mailto:mprochazka@valance.us)

August 24, 2005

The Australian government's proposed industrial relations reforms may considerably affect productivity. Wage pressures have been increasing due to Australia's tight labor market.

## Weekly Highlights

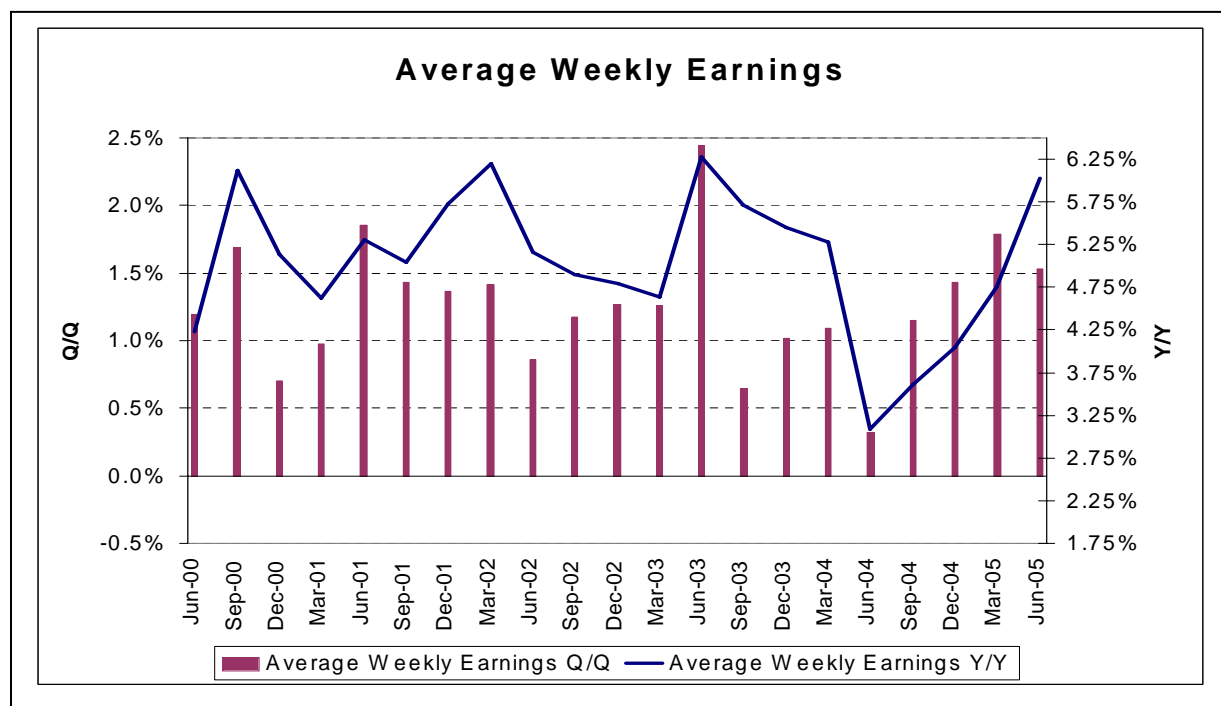
**Average Weekly Wages** – rose 1.5% Q/Q and 6.0% Y/Y in Q2. (page 26)

**New Car Sales** – gained 0.4% M/M and 4.9% Y/Y in July. (page 27)

**Construction Work Done** - increased 4.0% Q/Q in June. (page 27)

## Weekly Releases & News

### Chart of the Week: Average Weekly Wages

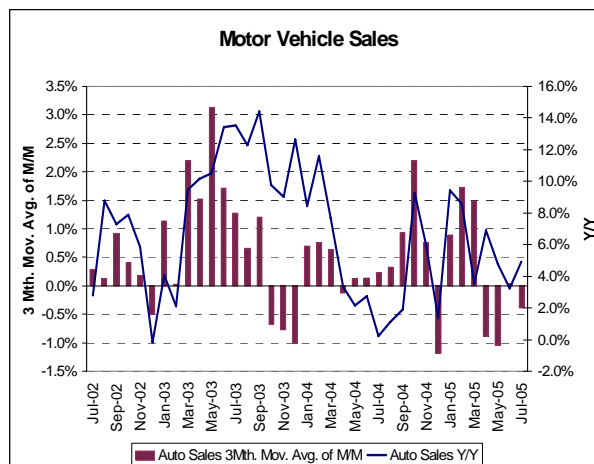


Average Weekly Wages gained 1.5% Q/Q and 6% Y/Y in Q2. Wage pressures have increased due to Australia's tight labor market. The current jobless rate of 5% is the lowest since the late 1970's.

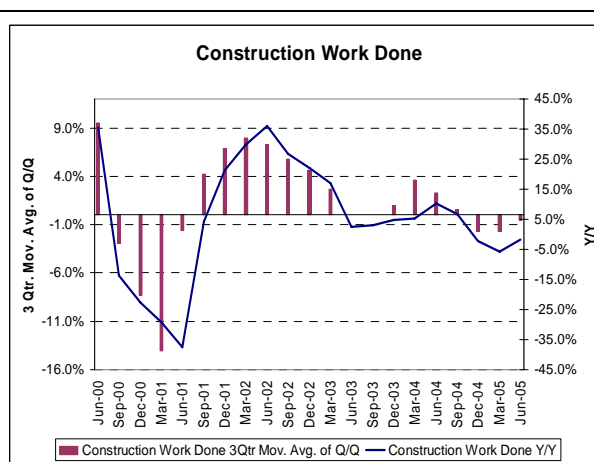
## New Car Sales, Construction Work Done & News

### New Car Sales

*The New Car Sales Index gained a surprising 0.4% M/M in July from a revised -0.5% M/M in June (previous -0.3%).*



*Australian construction work completed in the 2Q unexpectedly increased 4.0% Q/Q in June from a revised 2.5% Q/Q in March (previously 1.9%), driven by the largest gain in commercial building work in eight years. Non-residential building work completed in 2Q surged 10.8% and residential building climbed 3.4%.*



### Labor Pains before Economic Gains

Investment bank, JP Morgan, has warned that the Australian government's proposed industrial relations reforms may considerably affect productivity, which is already declining. The reforms could cause industrial unrest, which could possibly increase the decline in productivity. As experienced in New Zealand and the U.K., productivity declined before it improved, after industrial reforms. In June 2005, a group of labor market experts suggested that the reforms would not increase productivity at all. Most of union leaders sharply criticized the controversial reform package and huge protests against the Australian Government's Industrial Relation reforms took place. The proposed changes include expanded use of individual contracts in the workplace, the abolition of state-based industrial relations systems, the creation of a new Fair Pay Commission to set minimum wages, and the removal of some unfair dismissal protections.

---

## *News cont. & Upcoming Dates*

---

### *Australia Benefiting From China*

---

Demand for resources from China, Australia's second- largest export market, will most likely help narrow the current-account deficit and accelerate economic growth next year as exports contribute about 20% to Australia's economy. Bruce Baird, Chairman of the Federal Parliament's Standing Committee on Economic and Public Administration and Finance, commented that next year, Australia is likely to see 3% to 3.5% growth, driven by demand from China, which signals a steady performance in the Australian dollar for quite some time.

### *Key Dates This Week*

---

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
08/29	Trade Balance (JUL)	--	-1,371M
08/29	Retail Sales (JUL)	--	1.3%
08/30	Current Account Deficit (2Q)	--	-1,5648M
08/30	Private Capital Expenditure (2Q)	--	-3.8%

Valance Co., Inc.

# Valance Economic Report: New Zealand

Milo Prochazka

(340) 692-7710

[mprochazka@valance.us](mailto:mprochazka@valance.us)

August 24, 2005

Permanent migration has slowed considerably, suggesting that home buying and consumer spending may soon slow. Prices paid by New Zealand businesses for commodities, had the largest gain in almost four years in the second quarter amid surging fuel and power prices. Considerable focus this week has been on taxes, which is the largest issue for next month's elections.

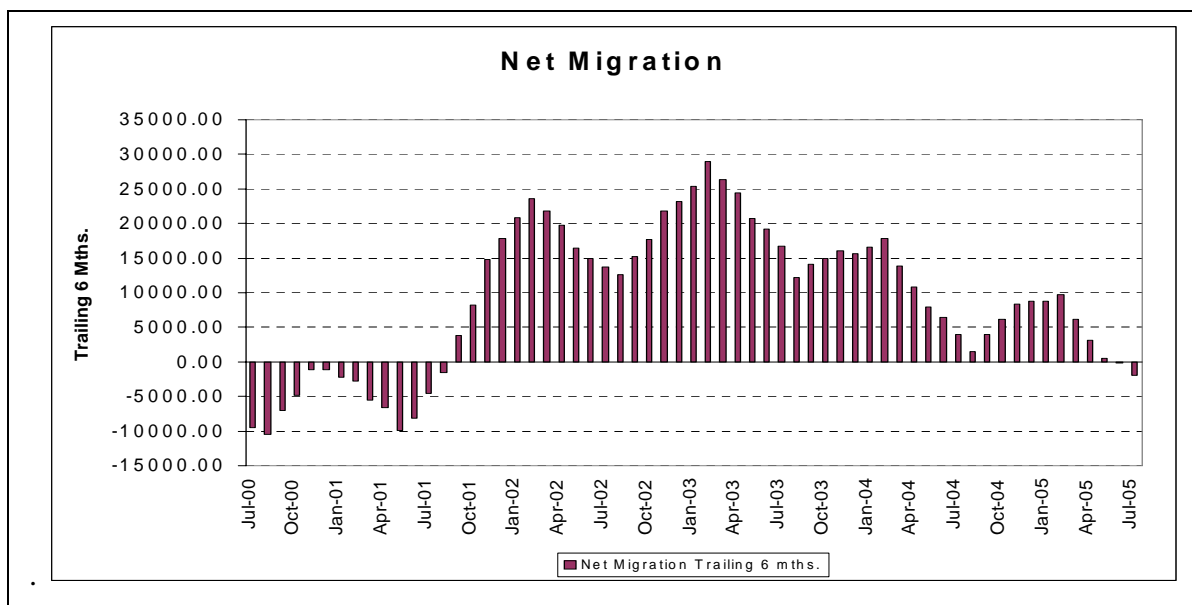
## Weekly Highlights

**Migration** – New Zealand gained 67% fewer permanent migrants Y/Y in July. (page 29)

**Producer Prices** – input and output prices rose 2% and 1.2%, respectively in Q2, (page 30)

## Weekly Releases & News

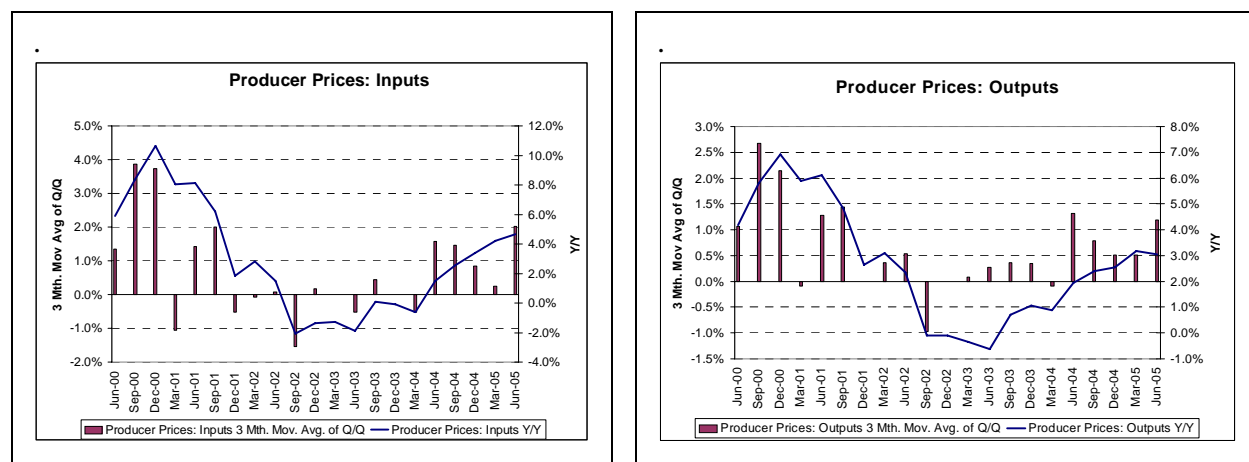
### Chart of the Week: *Migration*



New Zealand gained 67% fewer permanent migrants Y/Y in July, suggesting home buying and consumer spending may slow after having driven economic growth at the fastest pace in four years in 2004. In July, permanent departures exceeded arrivals for the first time since May of 2001.

## Producer Prices, Taxes & Upcoming Dates

### Producer Prices



Producer Input Prices rose 2% in Q2 and surged 4.7% Y/Y in June. Output Prices gained 1.2% in Q2 and gained 3% Y/Y in June. Rising prices for gasoline and jet fuel were the most significant influence on output prices. Generators also received higher prices for electricity while dairy companies received more for casein and butter, the agency said.

### Taxes – Upcoming Elections

The leader of the opposition National Party, Don Brash, unveiled a policy that would cut NZ\$8 billion of taxes (8.5% of GDP) over four years if National is able to narrow the Labor government's opinion-poll lead before the September elections. New Zealanders would be able to earn as much as NZ\$100,000 (\$69,000) up from NZ\$60,000, before paying the top rate of taxes under the proposed plan. The Labor Party, led by Prime Minister Helen Clark, is seeking a third term in office, and last week promised NZ\$1.38 billion in extra payments for families.

### Key Dates This Week

Date	Indicator	Expectation	Previous
08/24	Trade Balance (JUL)	--	-522.00M
08/30	NBNZ Business Confidence (AUG)	--	-43.2%
08/24	Building Permits (JUL)	--	12.4%

---

Valance Co., Inc.

---

## Weekly Economic Report: *China*

---

La-Toya C. Elizee  
(340) 692-7710  
[lelizee@valance.us](mailto:lelizee@valance.us)

August 24, 2005

**Household Savings, the only economic data released over the past week, continues its upward trend increasing 1.0% M/M and 17.6% Y/Y.**

---

### *News Releases*

---

**August 23<sup>rd</sup> – Economist Says China Will Move Cautiously on Yuan Reform** – China “will move cautiously” to avoid excessive movement of the yuan according to Economist, He Fan, of the Chinese Academy of Social Sciences. He indicated that China may have to choose between letting the yuan appreciate slowly, but frequently or increasing it by a larger amount and appreciating it less often.

**August 23<sup>rd</sup> – Lawmakers to Vote on Personal Income Tax Exemption Increase** - Xinhua News Agency reported that lawmakers in China will vote on doubling personal income tax exemptions. This exemption will apply to 1,500 yuan of monthly earnings -- up from 800 yuan. The exemption level was previously set in 1993, where at that level only approximately 1.0% of personal incomes exceeded 800 yuan a month.

**August 22<sup>nd</sup> – Rate Increases on U.S. and Hong Kong Dollars** - The PBoC announced that, for the third time this year, deposit rates for U.S. and H.K. dollars will be increased by 0.375 to 2.0% and 1.875%, respectively.

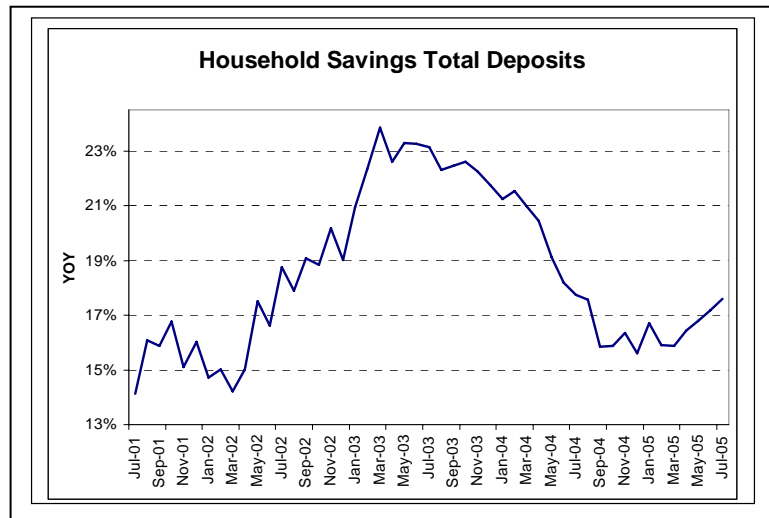
**August 21<sup>st</sup> – Industrial Companies Profit Growth** – The National Bureau of Statistics reported that industrial companies’ profits increased 20.6% Y/Y, in the first seven months of the year, (up from 19.1% in 1H), as increased commodity prices contributed to increased earnings.

**August 17<sup>th</sup> – Property Price Growth** – The National Bureau of Statistics reported that property price growth in China slowed from 10.1% Y/Y in 1H to 9.7% Y/Y in the first seven months of the year. The slowdown was attributed to increases in unsold real-estate space.

## ***Household Savings & Upcoming Dates***

---

*Household Savings increased 1% M/M and 17.6% Y/Y in July.*



## ***Key Dates This Week***

---

*Nothing to report.*



Valance Co., Inc.

## Valance Economic Report: Sweden

Evelyn L. Richards

(340) 692-7710

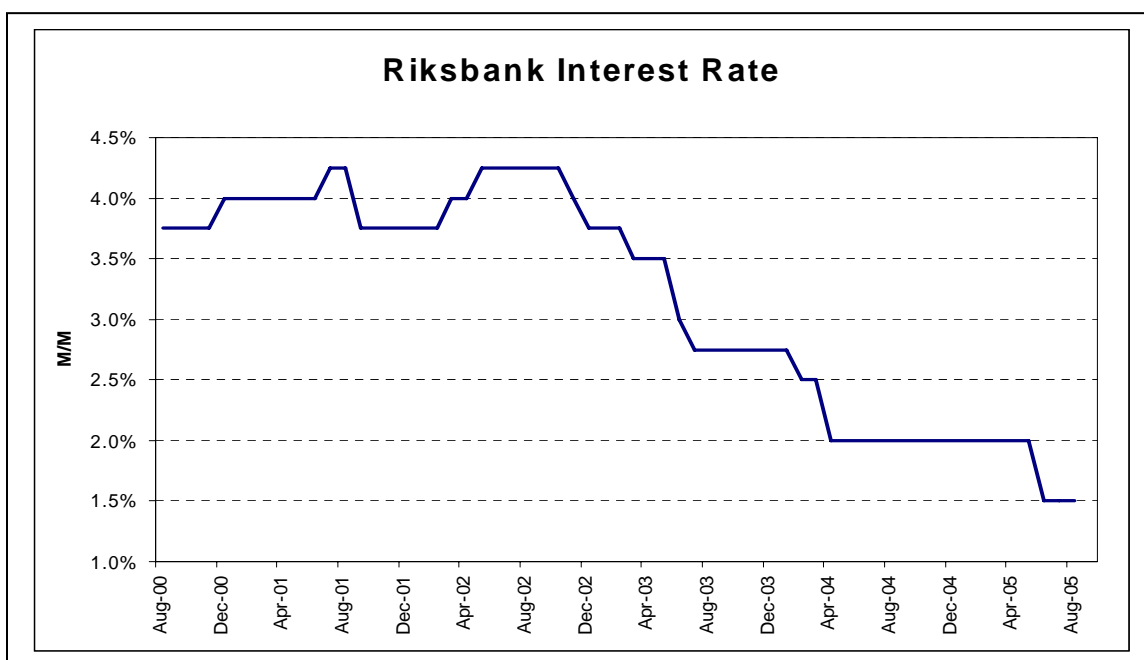
[erichards@valance.us](mailto:erichards@valance.us)

August 24, 2005

This week's economic events were highlighted by the Riksbank's decision to leave its repo rate unchanged at 1.5%, stating that it is not "urgent" at this point to raise the rate. A recap of Sweden's economy, showed GDP at 0.6% Q/Q in Q2; Underlying Inflation at 0.7% Y/Y in July; and the Central Bank's 2005 growth forecast cut to 1.9% in June.

### Weekly Releases & News

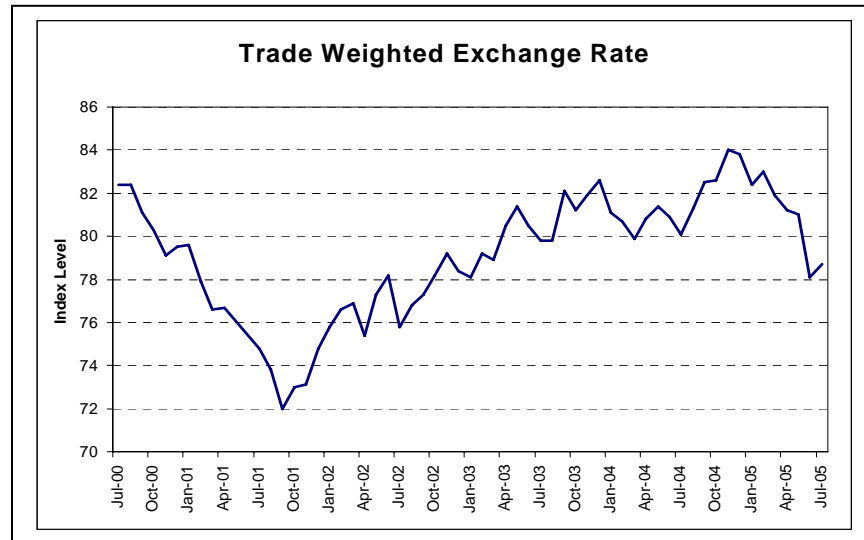
#### Charts of the Week: Riksbank Interest Rate



The Riksbank left its repurchase rate at 1.5%, as expected. The Central Bank indicated that a move to raise the repo rate is not "urgent" and expects inflation to be on target in two years. Inflation has stayed below the Bank's 2.0% target since September of 2003 as a result of a sluggish job market and consumer prices. Recapping, real GDP growth was 2.2% Y/Y in Q2 above the Bank's expectations of a 1.7% Y/Y gain. The Bank noted that GDP coupled with higher oil prices, may encourage an upward revision of the inflation forecast; Underlying Inflation rose 0.7% Y/Y in July; and in June, the Bank's growth forecast for 2005 was cut from 3.2% to 1.9%.

## Trade Weighted Exchange Rate & Upcoming Dates

### Trade Weighted Exchange Rate



### Key Dates This Week

Date	Indicator	Expectation	Previous
08/25	Trade Balance - Jul	--	19.2B
08/25	PPI - Y/Y / M/M - Jul	--	3.2% / 0.6%
08/25	Current Account – 2Q	--	55.8B
08/25	Unemployment Rate	--	7.1%
08/29	Retail Sales s.a. (M/M) / n.s.a. (Y/Y) - Jul	--	3.8% / 9.6%
08/31	Manufacturing Confidence s.a. - Aug	--	--
08/31	Consumer Confidence	--	8.2

Valance Co., Inc.

# Valance Economic Report: Switzerland

Evelyn L. Richards

(340) 692-7710

[erichards@valance.us](mailto:erichards@valance.us)

August 24, 2005

Data this week was mixed as the Trade Surplus narrowed and the UBS Consumption indicator fell. Conversely, Retail Sales and Producer & Import Prices posted gains.

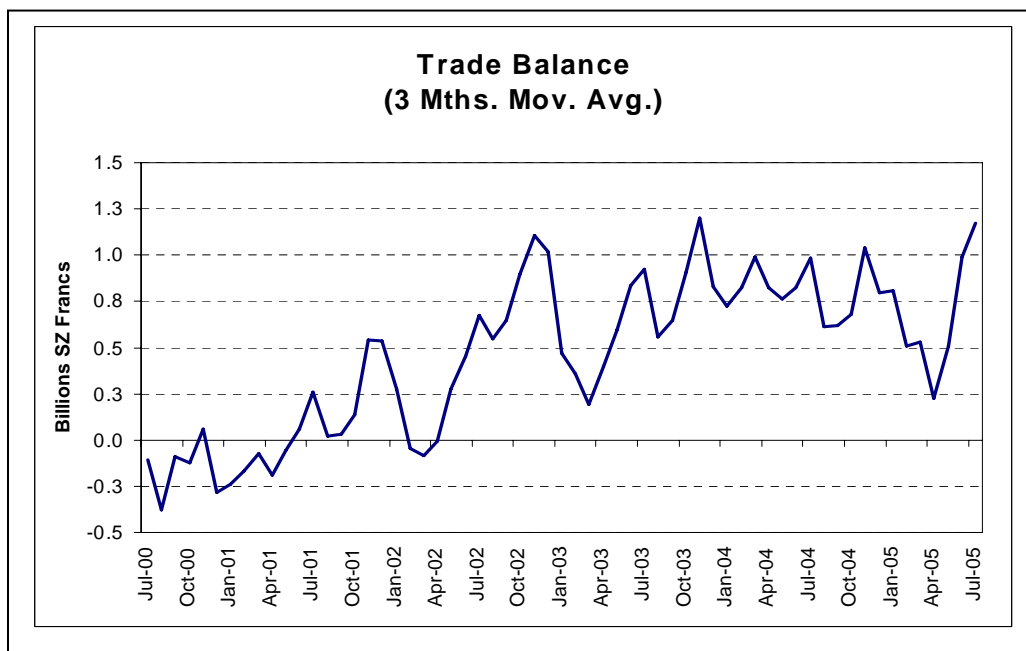
## Weekly Highlights

**Trade Balance** – narrowed from SFr1.63 bln in June to SFr0.74 bln in July. (page 35)

**Retail Sales** - rose from -0.4 Y/Y in May to 3.2% Y/Y in June. (page 36)

## Weekly Releases & News

### Chart of the Week: *Trade Balance*

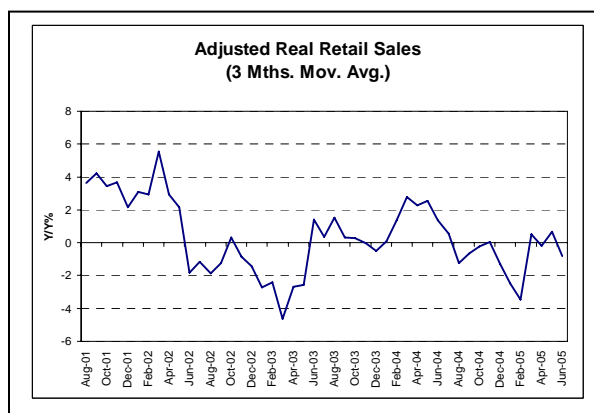


Switzerland's Trade Surplus narrowed from SFr1.63 bln in June to SFr0.74 bln in July. Slowing demand in Europe has counterbalanced the Swiss franc's decline against the dollar. Exports and imports, adjusted for inflation, rose 0.3% and 1.2%, respectively.

## Adjusted Real Retail Sales, Producer and Import Prices & UBS Consumption Indicator

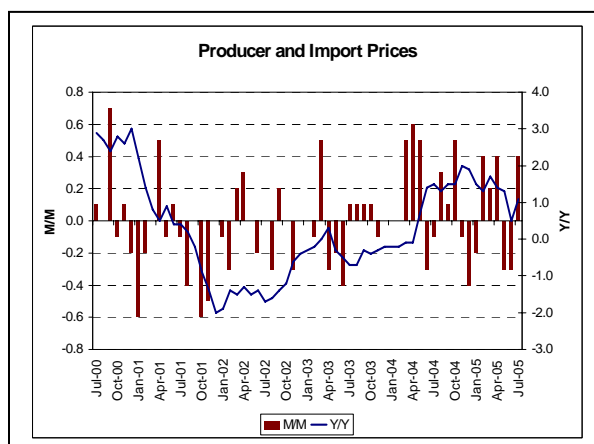
### Adjusted Real Retail Sales

Swiss Retail Sales rose from -0.4% Y/Y in May to 3.2% Y/Y in June, when adjusted for inflation and shopping days. This was the first increase in three months as consumers spent more on beverages and electronics.



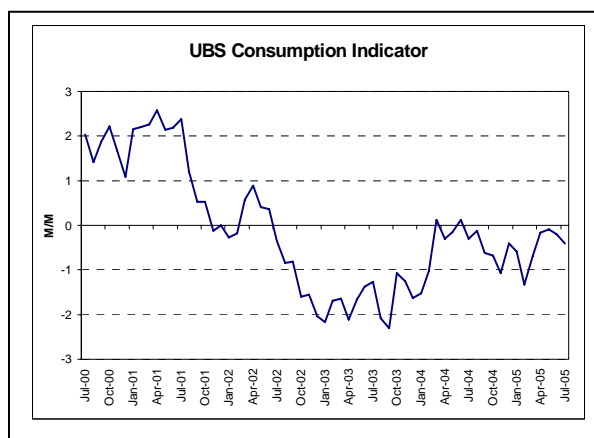
### Producer & Import Prices

Producer & Import Prices increased from -0.3% M/M and 0.5% Y/Y in June to 0.4% M/M and 1.1% Y/Y in July, above expectations of a 0.3% M/M and 1.0% Y/Y gain. The M/M increase was partially attributed to rising oil prices.



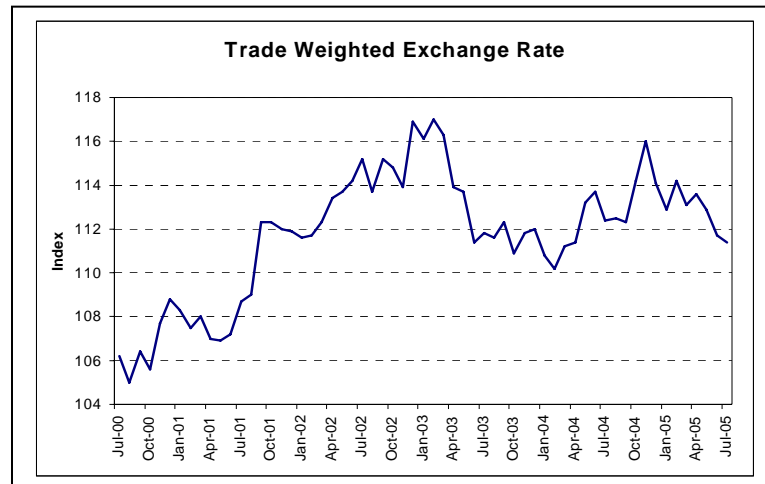
### UBS Consumption

The UBS Consumption Indicator fell, for the first time in five months, from a revised -0.2 (down from -0.037) in June to -0.4 in July, on surging oil prices.



## Trade Weighted Exchange Rate & Upcoming Dates

### Trade Weighted Exchange Rate



### Key Dates This Week

<i>Date</i>	<i>Indicator</i>	<i>Expectation</i>	<i>Previous</i>
08/25	Employment Level / (Y/Y) – 2Q	--	3.62M / -0.2%
08/25	KOF Swiss Leading Indicator - Aug	--	0.57